The County's Budget and Financial Policies are designed to provide the structure necessary for continued economic stability for County government. It is only with this stability that County agencies, courts and boards will be able to deliver high quality services to our community.

BUDGET POLICY

The General Fund Budget will be a balanced budget that appropriates the estimated cash balance at the beginning of the fiscal year as well as the estimated revenues for the fiscal year.

The County budget must be structurally balanced so that continuing revenues support continuing expenditures. One-time surpluses may not be used to expand continuing expenditures. Rather they may be used for one-time expenditures such as capital projects.

The General Fund Budget will allocate reserves to the extent allowed by the Ohio Revised Code. This includes reserves for contingency, economic stabilization, risk management, 27th pay period, workers compensation and capital equipment.

Revenues and expenditures will be updated during the fiscal year on the Certificate of Estimated Resources submitted to the Budget Commission. This monitoring assures that organization resources are sufficient to support an organization's budget.

County agencies are encouraged to maximize the use of state and federal revenues that may be available for their operations and that may help to preserve general funds for other needs.

Beginning in 2003, agency budget requests will be submitted in a program-based format with strategic business plans that outline the performance goals of each program for the following year. Actual performance data related to the inputs, outputs, results and efficiencies of each program will be part of the budget presentation and budget requests will align with each agency's strategic business plan.

Budget Basis: The budgets are prepared on a cash basis. Briefly, this means that revenues, expenditures, and transfers are recognized when cash is received or disbursed.

In most cases, purchase orders that are open at the end of the year are cancelled and the encumbrances lapse. The exceptions to this policy are purchase orders that are related to contracts for specific services or to one-time purchases. These encumbrances are recognized as expenditures.

The Comprehensive Annual Financial Report (CAFR) shows the status of the County's finances on the basis of generally accepted accounting principles (GAAP). The major differences between GAAP principles and the principles used to prepare the budget are as follows:

1. Outstanding year-end encumbrances are treated as expenditures (budget) as opposed to reservations of fund balances (GAAP).
2. Revenues are recorded when received (budget) as opposed to when susceptible to accrual (GAAP).
3. Expenditures are recorded when paid (budget) as opposed to when susceptible to accrual (GAAP).
4. Interfund loan transactions are recorded as revenue or expenditures (budget) as opposed to as payables or receivables (GAAP).
5. Depreciation expense is recorded on a GAAP basis only.
6. Acquisitions of fixed assets are recorded as expenditures (budget) as opposed to as assets (GAAP).
7. Changes in inventory are recorded as expenditures (budget) as opposed to as assets (GAAP).
8. Debt principal payments are recorded as expenditures (budget) as opposed to as principal payments on long-term debt (GAAP).

The CAFR shows fund expenditures and revenues on both a GAAP basis and budget basis for comparison purposes.

DEBT POLICY

Franklin County is a triple-A rated credit by both Moody's Investors Service and Standard and Poor's Corporation. While the County has historically expressed a preference to fund capital improvements from current tax revenues and existing fund balances, its triple-A rating and debt capacity position it well for future capital markets financings.

The County's policy in issuing debt includes the following major themes:

- The County issues long-term, fixed rate debt to permanently finance County infrastructure projects when current tax revenues or fund balances are not sufficient to finance projects. Long-term debt is not issued to support current operations.

- The County prefers to use a competitive process when issuing bonds as its triple-A bond rating provides for a full compliment of bidders. The County considers a negotiated process in limited cases when the complexity of the sale requires it.

- Debt capacity is periodically reviewed from three distinct perspectives: statutory debt limitation, budgetary implications, and comparable rating agency means and medians published by Moody's and Standard & Poor's for other triple-A rated counties of similar size and complexity. This debt capacity is evaluated on at least an annual basis.

Statutory Direct Debt Limitations

Ohio law provides that the principal amount of unvoted general obligation debt of the County, excluding "exempt debt" to be discussed below, may not exceed one percent of the total value of all property in the County as listed and assessed for taxation, and that the principal amount of both voted and unvoted general obligation debt of the County, less the same exempt debt, may not exceed a sum equal to three percent of the first $100,000,000 of the assessed valuation, plus one and one-half percent of such valuation in excess of $100,000,000 and not in excess of $300,000,000 plus two and one-half percent of such valuation in excess of $300,000,000. These two limitations for voted and unvoted indebtedness, referred to as "direct debt limitations", may be amended from time to time by the General Assembly.

The County's ability to incur unvoted debt (whether or not exempt from the direct debt limitations) is also restricted by the indirect debt limitation discussed below under "Indirect Debt and Unvoted Property Tax Limitations."

The Revised Code provides that certain debt a county may issue is exempt from direct debt limitations ("exempt debt"). Exempt debt includes general obligation debt to the extent that such debt is "self-supporting" (that is, revenues from the facilities financed are sufficient to pay applicable operating and maintenance expenses and related debt service and other requirements); bonds issued in anticipation of the collection of special assessments; bonds issued for the purpose of housing agencies of the county or of municipal corporations located, in whole or in part, within the county, to the extent that revenues derived from leasing such facilities, other than that attributable to unvoted county taxes, is sufficient to pay debt service; revenue bonds; notes issued in anticipation of the collection of current revenues or in anticipation of the proceeds of a specific tax levy; bonds issued to acquire or construct roads, highways, bridges and viaducts to the extent that the county's share of motor vehicle license taxes or gasoline taxes is appropriated to pay debt service on such bonds; bonds issued to acquire, construct or improve solid waste facilities; notes issued for certain emergency purposes; bonds issued to pay final judgments; bonds for acquiring or constructing jail, detention or correctional facilities; and bonds for permanent improvements to the extent that debt service thereon is supported by a pledge, pursuant to Section 133.07(A)(9), Revised Code, of certain moneys to be received by the county. Notes issued in anticipation of "exempt" bonds also are "exempt" debt. In calculating debt service to the direct debt limitations, the amount of money in a county's bond retirement fund allocable to the principal amount of non-exempt debt is deducted from gross non-exempt debt.

Without consideration of money in the County's Bond Retirement Fund, and based on the currently applicable assessed valuation (as of 12/31/2000):

- The total voted and unvoted non-exempt debt that the County could issue subject to the 3%, 1-1/2%, 2-1/2% limitation described above is $531,502,783. The total County non-exempt debt which will be outstanding after issuance of the Bonds is $103,889,063, leaving a borrowing capacity of $427,613,720 within the limitation for combined voted and unvoted non-exempt debt; and

- The total unvoted non-exempt debt that the County could issue subject to the 1% limitation is $213,201,113. The total County non-exempt debt subject to such limitation outstanding is $103,889,063 leaving a borrowing capacity of $109,312,051 within the 1% limitation for unvoted non-exempt debt.

Indirect Debt and Unvoted Property Tax Limitations

Ohio law permits general obligation bonds and notes in anticipation thereof to be issued by the County if authorized by vote of the electors. Ad valorem taxes, without limitation as to amount or rate, to pay debt service on voted bonds are authorized by the electors at the same time they authorize the issuance of the bonds. Voted obligations may also be issued by certain overlapping subdivisions.

General obligation bonds and notes issued in anticipation thereof may also be issued by the County (and by certain overlapping subdivisions) without a vote of the electors. Unvoted general obligation bonds and bond anticipation notes cannot be issued by the County unless the tax required to be imposed on taxable property in the County for the payment of debt service on (a) those bonds (or the bonds in anticipation of which notes are issued), and (b) all outstanding unvoted general obligation bonds (including bonds in anticipation of which notes are issued) of the combination of overlapping taxing subdivisions in the County resulting in the highest tax required for such debt service, in any one year is ten mills or less per $1.00 of assessed valuation. This indirect debt limitation is commonly referred to as the “ten-mill” limitation. It is imposed by a combination of the provisions of Article XII, Sections 2 and 11 of the Ohio Constitution and Section 5705.02 of the Revised Code.

Ten mills is the maximum aggregate millage for all purposes that may be levied on any single piece of property by all overlapping taxing subdivisions without a vote of the electors. This ten mills is allocated among certain overlapping taxing subdivisions in the County, including the County, pursuant to a statutory formula. Such statutory formula does not permit any taxing subdivision to increase the millage levied without a vote of the electors. When the County imposed a ½% county sales tax in 1985, the Board of County Commissions of the County determined to forego collection of 1.76 mills of the County’s statutory share of the ten mills, effective with the 1986 tax collection year. The Board of County Commissioners reinstated collection of .88 mills in 1992. Ohio law permits such a reduction and provides that no other taxing subdivision may collect the amount foregone by the County. Ohio law further permits the County, by action of its Board of County Commissioners, to reinstate collection of all or any portion of such millage.

The millage allocated to a taxing subdivision as described in the preceding paragraph is required by present Ohio law to be used first for the payment of debt service on unvoted general obligation debt of the subdivision, unless provision has been made for its payment from other sources, and the balance may be used for other purposes of the subdivision. To the extent this “inside” millage is required for debt service of a taxing subdivision (which may exceed the formula allocation to that subdivision), the amount that would otherwise be available to the subdivision for general fund purposes is reduced. Since the “inside” millage that may actually be required to pay debt service on unvoted general obligation debt of a subdivision may exceed the formula allocation of that millage to the subdivision, the excess reduces the amount of “inside” millage available to overlapping subdivisions.

In the case of notes issued in anticipation of unvoted general obligation bonds, the highest annual debt service estimated for the bonds anticipated by the notes is used to calculate the millage required.

Revenue bonds and notes and mortgage revenue bonds are not included in debt subject to the ten-mill limitation since they are not general obligations of the County, and neither the general revenue nor the faith and credit of the County is pledged for their repayment.

The ten-mill limitation applies to all unvoted general obligation debt even if debt service on some of such debt is expected to be paid in fact from special assessments, utility earnings or other sources.

In calculating whether or not unvoted debt to be issued by the county is within the ten-mill limitation, it is necessary to determine which of the overlapping taxing subdivisions within the County (including the County) has the highest outstanding debt service requirements within the ten-mill limitation. There are 42 municipalities and townships and 16 school districts in the County. Thus to determine the highest overlapping debt service requirements for unvoted debt, it is necessary to examine the requirements for combination of such overlapping subdivisions, including municipalities and townships, together with school districts.

CAPITAL POLICY

Franklin County's Capital Improvement Program is compiled by utilizing a detailed five-year capital planning process. Major criteria comprising this process include: 1) consideration of the impact of capital projects on future operating and maintenance expenses; 2) assessment of the asset's condition and replacement and/or refurbishment estimates; 3) development/gathering of accurate information such as future needs and costs analysis; 4) prioritization and tracking of progress of capital projects; 5) the requesting department's strategic business plan.

A multi-year linkage between operating and capital budgeting aids us in determining the impact capital projects will have on future expenses. Particular attention is devoted to the extension of the life of the assets so an aggressive and thorough preventive maintenance program is required on each project.

A thorough facilities or equipment assessment has been prepared that includes a life cycle analysis and fiscal estimates to repair or replace.

This assessment aids us in determining the asset's condition. All predictive major maintenance needs for County facilities have been prepared, planned and programmed into our Computer Aided Facilities Management software program (CAFM). The implementation of the CAFM was a major element in our Strategic Business Plan. A managed, up-to-date, CAFM program ensures that we have accurate data to plan construction, replacement and maintenance programs adequately. Careful attention to preventive and predictive maintenance helps to avert major and/or emergency repairs.

All agency requests for capital projects must conform to the agency's strategic business plan. Firm estimates on all submitted projects are compiled and hearings are held to offer further explanation of need.

Capital Projects are then prioritized and ranked under the following considerations: Life Safety; Facility Essential; Agency/Program Essential; Agency/Program Expansion; Quality of Life. An examination of available fiscal resources is an important component of this next step. As much as possible, the Commissioners are committed to financing improvements by utilizing current revenue rather than issuing of debt.

RESERVE POLICY

The General Fund allocates reserves to the extent allowed by the Ohio Revised Code section 5705.13. The following reserves are in place:

Economic Stabilization Fund – 5% of the preceding year's general fund revenue may be reserved in this rainy day fund to stabilize the County budget against cyclical changes in revenue and expenditures. The balance in this reserve will be $15.7 million in 2002.

Risk Management Fund – funds may be reserved for the County's self-insurance for liability claims arising from automobile accidents, litigation settlements, damages and judgment awards. All losses arising from these settlements must be paid from existing County funds in agency budgets or in the Risk Management Fund in accordance with the Board of Commissioners' Risk Management Policy approved on July 6, 1999.

Workers Compensation Reserve Fund – the balance in this fund, monitored by the Office of Management and Budget and by Risk Management, is based on recommendations from the Bureau of

Workers Compensation on the amounts estimated to be necessary to settle workers compensation claims.

General Fund Contingency – 3% of the general fund budget may be set aside for agency or other needs that were not anticipated in the budget. This allows funding to be provided for critical needs when an agency's business environment has changed since the development of the operating budget. The 2002 operating budget includes $7 million for this purpose.

27th Pay Period Reserve – this reserve was established in 1995 to gradually collect the funds necessary to meet the payroll requirements of a 27th pay period for general fund employees in 2009. The balance in 2002 will be $4 million.

Capital Projects Fund – the 2002 budget includes the funds necessary to establish a $3 million fund for the acquisition, construction, or improvement of fixed assets of the County.

Special Revenue Funds are required to reserve the funds necessary to cover operational needs for the first several pay periods of the following year in the case that revenue streams may be delayed early in the budget year.